Don't Let the Mortgage Meltdown Threaten the Middle Class American Dream
Written by
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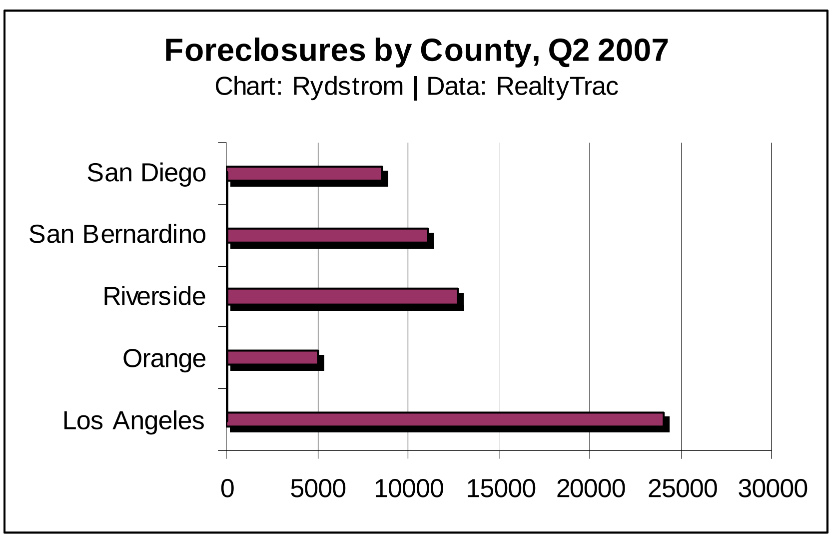
Recent figures for defaults and foreclosures are evidence of a serious threat to the American dream of homeownership for both subprime and now, prime borrowers. Foreclosures jumped 80 percent nationally and 295 percent for California, ending June 30, 2007 (RealtyTrac Inc.). California, Florida, Nevada and Arizona are responsible for this jump. California held the record with 83,210 homes in the foreclosure process in the second quarter of 2007 (Managing REO, August 8, 2007).

In Orange County, households in foreclosure went up 241 percent ending June 30, 2007 over last year. From January 2007, that's 1,207 to 1,786 homes per month. Ending June 30, Los Angeles was up 347 percent, Riverside 281 percent, San Bernardino 527 percent and San Diego 229 percent. (RealtyTrac Inc.). From May to June, the National Association of Realtors reported *the worst sales figures since November 2002.* Orange County home sales fell 31.6 percent for June 2007 (DataQuick, July 17, 2007). "Jumbos" (loans over $417,000) are overpricing or not available as the secondary market dries up.



The markets are re-pricing risk. Moody chief, Mark Zandi, predicts things will get worse. Defaults will rise to 2.5 million over the next two years and 10 percent of subprime homeowners will be in foreclosure by mid 2008, up four percent. On July 24, Countrywide confirmed that delinquencies have soared in the prime markets as well, from 1.8 percent to 4.6 percent ending June 2007.

For starters, the mortgage meltdown means that fewer subprime (and potentially prime) borrowers can buy a new home or refinance their current loan. There are three reasons: (1) extreme credit tightening under way with more restrictive eligibility requirements; (2) affordability is now tested at the fully indexed rate (not the lower teaser rate); and (3) property values have fallen to the point where homeowners have insufficient equity to refinance or profitably sell. In other words, most borrowers are locked into their property and loan as adjustable rate mortgages (ARMs) are resetting to higher rates resulting in unaffordable monthly payments. $1.1 trillion in loans are pending reset, some increasing monthly payments by 100 percent (Weiss Research, Mike Larson, 7/19/07). The 2006 so-called 2/28 ARMS will reset in 2008.

Minimally, private-public solutions include: (1) government bailouts or foreclosure moratoriums; (2) the Federal Reserve cutting interest rates (Bill Gross, PIMCO), 200 basis points over next six months (Economist, Peter Yastrow); (3) Freddie Mac/Fannie Mae approvals for loan buyouts (acting as loan “warehouse”) (Jim Cramer, MadMoney); and (4) new bailout “Private Equity Rescue Funds” (Ron Insana, CNBC).

But the fallout from this lending debacle does not just affect individual borrowers. It is already taking a grave toll on the business, finance, real estate and lending industries in Orange County and nationally. In Orange County alone, about 12 lenders have gone out of business, entered bankruptcy, ceased writing subprime paper or scaled down (OC Register, July 21, 2007, Mathew Padilla). Nationally, some 63-96 lenders have done the same, are vulnerable or have losses (Weiss Research, id; Managing REO, May 16, 2007). On July 24, Wall Street investors failed to fund $250 trillion in high-risk corporate buy-out or growth securities causing junk bond yields to rise to a four-year high. On Friday August 10, the Federal Reserve injected $38 billion of liquidity (REPOS) into the markets, an amount not seen since September 14, 2001.

At this stage, society must decide a threshold question: *Do we want to expand the American dream of homeownership and grow the economy at the same time, or not?* Increasing homeownership is a necessary component of success for the economy because housing creates jobs and tax revenues, and can help balance the budget, pay for Medicare and stimulate growth. In fact, about 20 percent of GDP (Gross Domestic Product) and 20 percent of consumer spending are related to housing. Specifically, according to The State of the Nation's Housing (Harvard, Joint Center, 2002), every 1,000 homes built create 2,448 jobs, $79.4 million in wages and $42.5 million in federal, state and local tax revenues and fees.

Default/Foreclosure Solutions Exist

Lenders and servicers are willing to work out solutions for troubled loans. The first step is to contact their loss mitigation department to obtain an affordability interview. Approved consultants are offering to act as a neutral representative between the parties. These include HUD (U.S. Department of Housing and Urban Development, http://www.hud.gov), Neighbor Works™ (http://www.nw.org/network/home.asp) and select attorneys (www.hotneutral.com). A free public outreach education service, Help4ThePeople™ (www.help4thepeople.com, 800 770-0797, extension 701) provides information on viable solutions and avoiding foreclosure scams. It offers a free booklet for homeowners describing 13 solutions to defaults and foreclosures.

The many viable solutions for homeowners include the following:

1. Pre-foreclosure loan refinance
2. Pre-foreclosure sale
3. Extension of adjustable loan reset dates
4. Cash payment loan reinstatement
5. Repayment installment plan
6. Loan modification
7. Loan forbearance
8. FHA HUD partial claim

9. Short sale for less than mortgage amount due

10. Deed in lieu of foreclosure

11. Short refinance

12. Reverse mortgage (for seniors)

13. Defenses to foreclosure and bankruptcy

Homeowners have rights just as lenders do. Consulting a third-party organization or an attorney who specializes in this area of law can provide the help consumers need to select the most favorable option for their situation.

About the Author:
Richard Ivar Rydstrom is an attorney with O'Connell & Rydstrom. He has developed solutions to the current lending crisis including TID™ - Truly Intelligent Disclosures™, SHILO™ - Safe Harbor Intelligent Loan Options™ and FMII™ - Foreclosure Mortgage Insurance Investment Funds published by the 110th Congress. He holds a B.S. in Professional Accounting from Long Island University, a J.D. from Western State University, an LL.M. from Pacific West College of Law and an International Law Certificate from Cambridge Law, England. Email: (949) 798-6206, rrydstrom@gmail.com, www.rirlegal.com.